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8 November 1973

Central Intelligence Bulletin

CONTENTS

EC - MIDDLE EAST: EC believes declaration on Middle East will mollify Arab oil producers. (Page 4)

PORTUGAL: Arab oil embargo to Portugal. (Page 6)

USSR-MBFR: Soviets give preview of proposals. (Page 7)

CAMBODIA: Enemy sets back government forces. (Page 10)

LAOS: Government edges closer to full implementation of peace agreement. (Page 12)

EUROPEAN COMMUNITIES: Community's enlargement affects compensation plan. (Page 13)

EUROPEAN COMMUNITIES: Community finance ministers discuss economic and monetary union. (Page 14)

JAPAN: Controls on foreign capital inflows eased. (Page 15)

USSR: New light tank. (Page 17)

USSR - LATIN AMERICA: Soviet warships visit two Latin American ports. (Page 18)

TURKEY: Ecevit unable to form new coalition. (Page 19)

DENMARK: New elections in the offing. (Page 20)

FOR THE RECORD: (Page 21)

25X1

Approved For Release 2004/01/05 : CIA-RDP79T00975A025600010001-6

Next 3 Page(s) In Document Exempt

Approved For Release 2004/01/05 : CIA-RDP79T00975A025600010001-6

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EC - MIDDLE EAST: The EC foreign ministers apparently believed that the generally pro-Arab declarations they issued on 6 November would lead the Arab oil producers to ease the fuel shortage facing all EC members, particularly the Dutch.

During the discussion of the Arab embargo of oil to the Netherlands and reductions in supplies to other EC members, the British and the French reportedly pressed the Dutch--who had the support of the Danes, Belgians, and Luxembourgers--to abandon their call for community solidarity on oil supplies. Ac-

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The pro-Arab cast of the EC declaration is evident in the call on both Israel and Egypt to return to positions they held on 22 October. This call implicitly supports Cairo's insistence that withdrawal is a prerequisite for movement on the prisoner of war issue. In addition, the reference to the "legitimate rights of the Palestinians" goes beyond the language of UN Security Council Resolution 242.

Initial public Arab reaction to the EC statement has been favorable. A leading Cairo newspaper has said the EC position will help to bring pressure on Israel. The Palestinian news agency described the statement as a step on the path to understanding the Palestinian cause. While echoing Arab satisfaction, an Egyptian official in Brussels asserted that the declaration would not save the Dutch from the embargo. Relaxing the boycott, he implied, would signify Arab weakness. Should this Arab attitude prevail, European press criticism that the Nine's policy is not only "appeasement" but also futile is likely to grow.

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8 Nov 73

Central Intelligence Bulletin

4

25X1

Approved For Release 2004/01/05 : CIA-RDP79T00975A025600010001-6

25X6

Approved For Release 2004/01/05 : CIA-RDP79T00975A025600010001-6

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PORTUGAL: Portugal, which normally receives about 85 percent of its oil from Arab sources, reportedly has been embargoed by the Arab oil-producing states in reprisal for its cooperation with the US in the resupply of Israel. The embargo will not cause insoluble difficulties, however, because Lisbon has access to Angolan oil.

The Portuguese Fuel Board's claim that the country had 90 days of oil supplies on hand and another 15 days of supplies en route on 1 October may be somewhat exaggerated. Nevertheless, Lisbon has ample time to divert Angolan oil to the home country. Angola currently produces about 145,000 barrels per day, compared with metropolitan Portugal's needs of about 90,000. The diversion of some Angolan oil away from normal markets will not seriously affect any other nation's supply.

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USSR-MBFR: The Soviets, having shown signs of restlessness at the "general" approach to the MBFR negotiations taken by the NATO countries so far, have given US representatives a preview of proposals they will make at today's session of the force reduction talks.

Chief delegate Khlestov outlined a three-stage program of reductions to be started in 1975 and completed in 1977. In the first stage, the direct participants in the talks would reduce their forces by 20,000 men each, as a "symbolic" step. Forces would then be reduced by 5 percent on each side, and finally by 10 percent. The agreement covering all three stages would be concluded as a whole. Governments would give formal notice of the beginning and fulfillment of the reductions.

In response to questions, Khlestov said that the base line for all three phases would be "the forces in the area on the date of the signature of the agreement." All forces, including air forces, and by implication nuclear-armed forces, would be included. Reductions would be made in the form of units, with stationed (US and Soviet) forces to be withdrawn to their homelands and national forces to be "demobilized."

The Soviet proposal gives the appearance of a serious and precise approach, but as outlined by Khlestov, is full of ambiguities and conflicts with the NATO approach on a variety of issues. Although the Soviets suggest a "phased" approach to reductions, they do not distinguish between stationed and national forces in the first phase. The US has won NATO approval that US and Soviet forces would be reduced first. The NATO allies have also agreed that a total of only 10 percent of their forces will be reduced. More importantly, the Soviet proposal implicitly rejects the NATO view of Warsaw Pact advantages in certain vital areas, and thus does not admit the need for the asymmetrical reductions NATO

C espouses--or even for their discussion. In addition, the Soviet desire to include air forces is contrary to the NATO negotiating position. The suggestion that the US withdraw combat units is also likely to meet with Western opposition.

Khlestov's definition of the area of reductions appears to include the forces or territory of only the direct participants. Hungary would thus continue to be excluded. Except for a measure providing for routine rotation of forces that would not increase the overall level, the Soviet proposal does not appear to acknowledge any form of constraints--measures limiting certain types of military activity--which are an important aspect of the NATO negotiating position. Similarly--except possibly for the proposal to give notification of the implementation of reductions--there is no mention of verification, another sensitive matter for NATO.

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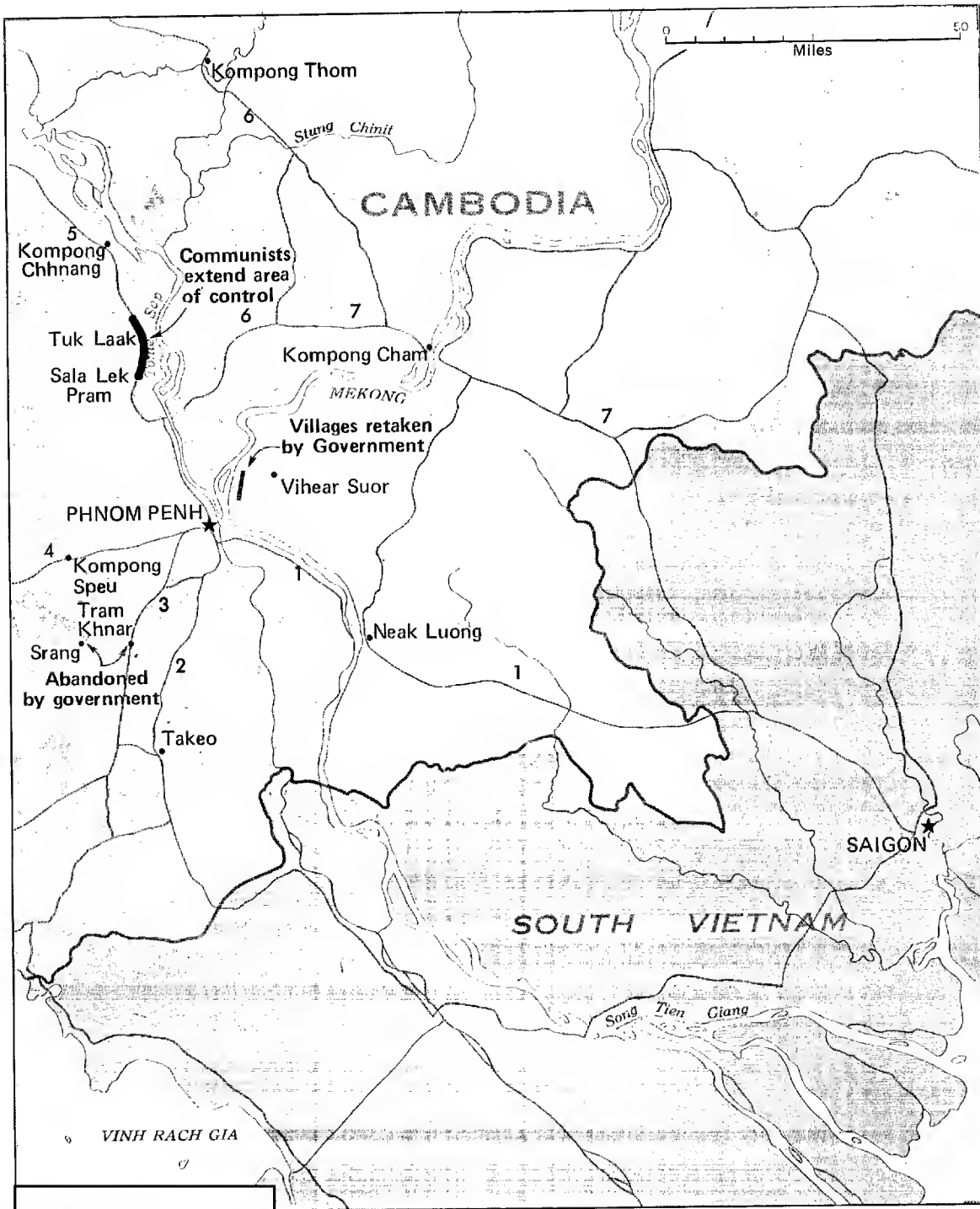
The initial reaction to the Soviet proposal by the NATO allies was mixed, but most of them agreed that the Western side should accelerate its discussion of general topics related to force reductions and present a long-planned Western proposal sometime soon.

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Approved For Release 2004/01/05 : CIA-RDP79T00975A025600010001-6



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CAMBODIA: The Khmer Communists recently have inflicted several setbacks on government forces.

The insurgents on 4 November forced government troops out of the isolated town of Tuk Laak on Route 5, some 35 miles north of Phnom Penh. Of the approximately 750 troops that were at Tuk Laak, only 300 thus far have managed to work their way north to Kompong Chhnang city. The Communists now hold an 11-mile section of the highway north of Sala Lek Pram. The government apparently does not intend to make any major effort to reopen the road until early next year. Government truck convoys are moving over Route 4 on regular schedules,

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Another military reverse occurred on 3 November, when the Communists drove government units out of Tram Khnar, 25 miles southwest of Phnom Penh on Route 3. Tram Khnar had been isolated and under pressure for almost two months. There were between 1,200 and 1,400 troops and about 3,000 civilians at Tram Khnar, and only a few hundred of these have made their way back to friendly lines near Route 4.

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Yesterday the town of Srang, the last government enclave in this area, was evacuated. There were 700 troops and 4,000 civilians at Srang. Although neither Tram Khnar nor Srang is important tactically, their loss is bound to have some demoralizing effect on the Cambodian Army.

Closer to Phnom Penh, Cambodian Army units have erased recent Communist gains on the east bank of the Mekong River by retaking several villages within ten miles of the capital. The Communists, however, are continuing to harass Vihear Suor, the government's main garrison in this area. Elsewhere

8 Nov 73

Central Intelligence Bulletin

10

25X1

in the Phnom Penh region, government operations to retake ground along the capital's southern front between Routes 2 and 3 are still stalled.

Meanwhile, the Khmer Communists continue to call for an all-out military effort during the forthcoming dry season. In a statement issued on 3 November, Sihanouk's in-country "defense minister," Khieu Samphan, called for attacks in "areas surrounding Phnom Penh" and against outlying provincial capitals, as well as intensified interdiction efforts along the Mekong River and against Phnom Penh's overland supply routes. He also emphasized that the insurgents were "determined to hold their destiny in their own hands" and "to wage the struggle to the end without compromise."

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LAOS: The government has edged closer to full implementation of the peace agreement, but a number of obstacles remain.

On 6 November the National Assembly passed a resolution generally supporting the peace agreements and the principle of a new coalition government. The resolution is a good deal less than a ringing endorsement, but Prime Minister Souvanna will no doubt interpret it as fulfilling the constitutional requirement of having assembly approval before a new coalition government can be invested by the King.

Souvanna has not yet been able to draw up the list of his new cabinet. The Communists have said they will not provide the names of their candidates until all their security and administrative personnel have arrived and been properly lodged in Vientiane and Luang Prabang. The Communists have stated, however, that once the current airlift is completed on 16 November, they will then agree to activate the Joint Committee to Implement the Agreement (JCIA). This should satisfy some military leaders, who see the JCIA as the only legal mechanism for controlling the movement of Communist personnel in Vientiane and Luang Prabang.

Although the assembly adjourned on 7 November and would not normally reconvene until next spring, Souvanna's problems with the body may not be over. The resolution of 6 November calls for continued consultation between Souvanna and the assembly, and some deputies believe he will have to obtain assembly approval--presumably by calling a special session--when he is ready to form his new government. Some deputies clearly hope to use this resolution to promote their own ambitions for a place in the new government, but Souvanna, with the King's backing, has the constitutional authority to choose his ministers without consulting the assembly. The deputies could still cause him trouble, however, if they take their complaints to some of the top military leaders, who already are annoyed with Souvanna's unilateral dealings with the Lao Communists.

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25X1

8 Nov 73

Central Intelligence Bulletin

12

25X1

Approved For Release 2004/01/05 : CIA-RDP79T00975A025600010001-6

EUROPEAN COMMUNITIES: The EC foreign ministers have agreed on the major part of proposed tariff concessions to compensate non-EC countries for trade losses that resulted from Community enlargement. Of the 30 commodities proposed by the EC Commission, 22 have been fully accepted, and only minor objections remain on four others. France, Italy, and Ireland, however, continue to balk at concessions for kraft paper, citrus fruit, and frozen meat. If the Commission can resolve outstanding differences through private consultations, a formal offer may be made by the end of the month.

The proposed concessions cover several commodities of interest to the US--notably trucks, plywood, kraft paper, and citrus fruit--but the offer probably will fall considerably short of US requests. Quantitative tariff reductions are likely to be less than desired by Washington, and no concessions on cereals are being offered. The EC apparently intends to present its offer as final--as France has demanded--but other members may be willing to consider a re-appraisal if third-country reactions require it.

(A high French official has assured the US Embassy that EC agreement on a list of offers is now certain. In what probably presages further difficulty from the French, however, he claimed that the Community position would indeed be put on a take-it-or-leave-it basis. [REDACTED]

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EUROPEAN COMMUNITIES: Community finance ministers are meeting today to begin discussions on the second stage of the EC's planned economic and monetary union. The meeting, which comes a scant seven weeks before the second stage is scheduled to begin, probably will not produce any significant agreement among EC members, whose views remain sharply divided on crucial issues.

The Germans, Dutch, and French, each for their own reasons, do not want to move into the second stage at this time. The failure of the first stage, as illustrated by the difficulties that have plagued EC efforts to maintain fixed currency rates, strengthens Bonn's position that progress must take place simultaneously in all areas, such as reduction of currency margins and harmonization of economic policy. The French remain unwilling to give up domestic economic policy prerogatives to the EC. The Dutch, realizing that further progress can be accomplished only with more powerful Community institutions, see this as a prerequisite to entering the second stage. The EC Commission, reminding the members of the timetable set at the summit meeting in October 1972, is urging the members to take positive action.

The result will probably be some compromise that will represent only token progress toward the second stage. On the parallel issue of regional aid, the Council may eventually agree to a program, but with less funding than the UK, Ireland, and Italy want. On the other tough issue, currency reserve pooling, the Community may agree to increase the present swap lines rather than give up 20 percent of their reserves to Community control, as presently proposed by the Commission. The US Mission in Brussels notes that the Council may be under considerable pressure in the next several months, for political and psychological reasons, to make a start toward reserve pooling.

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JAPAN: Controls on foreign capital inflows are being modified in response to the weakening of the yen and the decline in official foreign-exchange holdings. Tokyo has removed all limits on stock purchases by foreigners and has eliminated the requirement that foreign bonds sold in Japan be converted into dollars. In addition, the limit on prepayments for exports will be eased.

The moves are being made to avoid further large losses in official reserves, which declined by \$750 million in October and suffered another big drop the first week of November. The mounting sales of dollars by the Bank of Japan convinced Tokyo that the extremely tight controls on capital inflows had outlived their usefulness.

The supply of dollars entering the Tokyo money market is likely to rise, and downward pressure on the yen will ease. If the yen does not stabilize, a further loosening of restrictions is likely.

25X1

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USSR: The Soviets made the first public showing of a new light tank yesterday during the military parade marking the October Revolution. The new tank is similar to the BMP armored personnel carrier that has been in service with Soviet ground forces since 1967. Both vehicles have a 76-mm. gun, a 7.62-mm. machinegun, and a launcher for the Sagger antitank guided missile.

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The new tanks, which will provide increased mobility and firepower to Soviet airborne divisions, will probably replace the older PT-76 armored personnel carriers now in use in the reconnaissance elements of Soviet tank and motorized rifle divisions.

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USSR - LATIN AMERICA: The Soviet Navy is increasing its visibility in Latin American waters.

A Soviet submarine tender and a naval oiler have completed port calls in Peru and Ecuador and are now returning to home waters. The ships are more than 1,000 miles west of the Galapagos Islands, heading northwest. The ships left Vladivostok in late August on a midshipmen's training cruise to the eastern Pacific. Their scheduled visit to Santiago, Chile, was canceled by Chile's military government after the coup of 11 September, but they did call at Callao, Peru, and Guayaquil, Ecuador, in October.

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This is the second visit by Soviet naval ships to Latin America since last winter, when another tender with midshipmen aboard called at Rio de Janeiro and later at Cienfuegos, Cuba. The Soviet Navy uses these training cruises as a low-key method of showing the flag in Latin America.

25X1

8 NOV 73

Central Intelligence Bulletin

18

25X1

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TURKEY: Republican Peoples Party leader Ecevit has failed to form a coalition government and has asked President Koruturk to relieve him from responsibility as formateur.

The left-of-center Republican Peoples Party, which won a plurality in last month's elections, had been turned down earlier by the other parties. It had been negotiating with the National Salvation Party (NSP) since 27 October, when Ecevit was designated Prime Minister and asked to form a government. The two parties reportedly could not agree on the allocation of cabinet posts, especially the key Interior Ministry.

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President Koruturk could now ask a leader from the center or right to form a government. If no one can put together a majority coalition, political leaders might agree on an "above parties" government modeled after the regime of the last two years. A prolonged political crisis might increase the risk of the type of intervention by the military that forced former prime minister Demirel out in 1971.

25X1

8 Nov 73

Central Intelligence Bulletin

19

Approved For Release 2004/01/05 : CIA-RDP79T00975A025600010001-6

25X1

DENMARK: The resignation of parliamentarian Erhard Jakobsen from the Social Democratic Party cancels the government's one-vote majority and will force Prime Minister Anker Jorgensen eventually to call new elections. Jakobsen said he would continue to support the government on most issues but abjured the Social Democrats' housing policy--the most important issue facing this session of parliament. Jakobsen's declaration of partial loyalty may allow the government to control the timing of the government's collapse, perhaps postponing new elections until next spring. [REDACTED]

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FOR THE RECORD*

Pakistan-Afghanistan: Kabul has returned the five members of a Pakistani paramilitary group who entered Afghanistan last month and killed an Afghan soldier while allegedly pursuing smugglers. Kabul's action, however, removes only one of many irritants in Pakistani-Afghan relations. [REDACTED]

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Iraq-USSR: Moscow has agreed to make available \$200 million of credits for various Iraqi development projects. Some of the aid will be used to build two power plants and a cement plant, as well as for electrification and irrigation projects. It is unclear whether any of this aid is new or merely represents a further allocation for projects covered under Soviet credits of \$222 million extended in 1971. [REDACTED]

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West Germany - Czechoslovakia: Talks between the Federal Republic of Germany and Czechoslovakia on the establishment of diplomatic relations were resumed yesterday in Prague. The talks had been recessed since September. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

8 Nov 73

Central Intelligence Bulletin

21

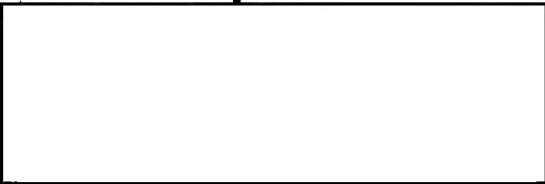
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